

BEFORE THE  
PUBLIC SERVICE COMMISSION OF WISCONSIN

---

Investigation on the Commission's Own  
Motion Regarding Innovative Utility  
Ratemaking Approaches that Promote  
Conservation and Efficiency Programs by  
Removing Disincentives that May Exist  
Under Current Ratemaking Policies

Docket No. 5-UI-114

---

**RESPONSE OF WISCONSIN PUBLIC POWER INC.  
TO SURVEY QUESTIONS IN DOCKET NO. 05-UI-114**

---

Wisconsin Public Power Inc. (WPPI) submits the following responses to the Public Service Commission of Wisconsin's (PSCW's) survey questions. As municipal, not-for-profit organizations, WPPI and its members do not have a direct interest in all aspect of this proceeding. Accordingly, WPPI responds selectively to the 18 survey questions included by the PSCW's notice.

**1. Do the current rate structures of the electric and gas utilities in Wisconsin contain a net lost revenue and profit effect that is significant enough to discourage these utilities from developing and spending additional money on energy efficiency programs?**

**RESPONSE:** We believe current rate-making methodologies for retail electric service in Wisconsin create a disincentive for investor-owned utilities' businesses to engage in energy conservation and efficiency programs. As sales decline, a utility's ability to recover its fixed costs diminishes and its return declines.

Although the same result occurs for municipal utilities, due to their business model, the concern (and financial disincentive) is somewhat different. As a not-for-profit

entity, a municipal utility's mission focuses on minimizing its customers' bills, consistent with the provision of reliable and environmentally responsible service. Municipal utilities have a strong incentive to encourage their customers to use energy efficiently as a means to lower customers' bills. Consistent with this objective, WPPI and its members have more than doubled their spending on conservation and efficiency in the last two years and expect the spending to increase substantially in the next two years.

Though WPPI and its members' objective is not to maximize profits, to the extent they are successful in reducing usage and thus revenue, WPPI's members must assure that existing retail ratemaking mechanisms provide them sufficient revenue and cash flow to maintain and enhance system reliability and continue their conservation and efficiency efforts. If the PSCW's objective is to increase dramatically the level of conservation and efficiency undertaken in Wisconsin, as recommended by the Global Warming Task Force's Interim Report (the Interim Report), WPPI believes the recommendations set forth below in response to question 9 are necessary and desirable changes to the PSCW's existing ratemaking practices and policies for municipal utilities. WPPI strongly supports those recommendations.

**3. If disincentives are removed and the utility elects to spend higher than current amounts on energy efficiency is it best for (a) the utility to develop and implement the programs; (b) should that be done by Focus on Energy; (c) should it be done through a combination of the utility and the Focus on Energy; or (d) should it be done by some other entity?**

**RESPONSE:** If conservation and energy efficiency expenditures are substantially increased as envisioned by the Interim Report, the spending under all

existing programs will need to increase to achieve conservation and efficiency goals. Most municipal utilities have delivered energy efficiency to their customers through local Commitment to Community programs. These efforts have been very important and successful. These programs must continue as the centerpiece of municipal utilities' efficiency efforts.

As part of their Commitment to Community programs, many municipal utilities also have contracted with Focus on Energy (FOE) for supplemental services, which permits the utilities to make available standardized energy efficiency programs to customers. The supplemental FOE programs assure that the municipal utilities' customers have access to the same level of service as other electric customers in Wisconsin.

As conservation and energy efficiency efforts increase in the future, the spending under Commitment to Community and FOE programs each will need to increase as part of aggressive efforts to meet enhanced energy efficiency goals. The key will be to deliver new services and programs in a cost effective manner. Municipal utilities have done that effectively within their communities through Commitment to Community programs and by offering selected FOE programs. While each of these efforts will need to increase, WPPI does not see any benefit in creating new organizations to deliver programs when the municipal utility and FOE each have existing infrastructure in place to effectively deliver energy efficiency services to municipal customers.

**8. Please provide what you believe to be the key components of a decoupling mechanism.**

**RESPONSE:** In developing any decoupling mechanism, the PSCW should ensure that the delineation between retail and wholesale jurisdictions is not blurred and therefore should allocate the costs associated with retail decoupling only to the retail jurisdiction. This is appropriate. Municipal utilities will bear the full cost of their own conservation and efficiency efforts to serve customers within their retail service areas. They therefore should not also bear the redundant costs of their wholesale supplier's retail costs.

**9. Please provide examples of ratemaking mechanisms other than decoupling that could incent utilities to pursue additional energy efficiency spending at a reasonable cost to ratepayers.**

**RESPONSE:** WPPI notes that the PSCW has opened a docket (5-UI-116) to analyze innovative rate designs as a means to encourage efficiency and conservation. WPPI believes appropriate rate design initiatives can play a vital role in encouraging conservation and efficiency, but will defer its comments on rate design issues to Docket No. 05-UI-116.

With respect to other ratemaking mechanisms, WPPI believes that two changes would eliminate structural impediments to municipal utilities sustaining their energy efficiency and conservation efforts while maintaining the ability to operate their distribution systems. First, a municipal utility's budgets and rates, as approved in PSCW rate cases, should not serve as an impediment to municipal utilities undertaking cost effective conservation and efficiency efforts. At the present time, a single large project or a few medium sized projects may exhaust a small utility's approved annual budget early

in a fiscal year. This sometimes may defer desirable projects into the next fiscal year for no good public purpose.

The amount of conservation and energy efficiency spending in the utilities' PSCW-approved rates should not act as a disincentive or de facto cap. WPPI proposes that the PSCW eliminate this disincentive and permit municipal utilities to engage in deferral accounting of conservation and efficiency expenditures that cause "overspending" of the utility's conservation and energy budgets so the utility is afforded an opportunity in its next rate case to recover prudently incurred expenditures that were in excess of the amounts included in its approved rates.

Second, WPPI recommends that the PSCW "level the playing field" for capital investments. At the present time, municipal utilities are permitted to earn a return, typically in the range of 6% to 7%, on capital investments in its distribution systems. WPPI proposes that the PSCW permit municipal utilities to establish a capital budget approved in PSCW rate cases and earn a return on the utility capital invested directly in energy efficiency and conservation projects at their own facilities or in customer facilities. This proposal is not meant to increase costs to the consumer but to provide a means for the utility to maintain the cash flow necessary to sustain its conservation and energy efficiency efforts over the long-term, lowering emissions and customer bills and deferring expensive new generation projects. This proposal mimics the PSCW treatment of capitalized investments made on the supply side of the utilities' businesses. This seems reasonable, given that the capital investments in efficiency and conservation infrastructure are made in an effort to avoid capital investments on the supply side of the business.

These two reforms would be options available to a municipal utility. The utility could choose to take advantage of them or not. Its decision likely could depend upon the financial circumstances of their individual utility. Given their missions, a municipal utility and its governing body are likely to elect either or both of these options only if necessary to maintain the financial health of the utility while delivering conservation and energy efficiency services needed and desired by its customers.

Dated this 21st day of July, 2008.

**ANDERSON & KENT, S.C.**

Paul G. Kent (# 1002924)  
Attorney for Wisconsin Public Power, Inc.  
1 N. Pinckney Street, Suite 200  
Madison, WI 53703  
Phone: (608) 246-8500  
Fax: (608) 246-8511  
E-mail: pkent@andersonkent.com

**WISCONSIN PUBLIC POWER INC.**

Mike Stuart  
Executive Vice President - Policy  
1425 Corporate Center Drive  
Sun Prairie, WI 53590-9109  
Phone: (608) 834-4500  
Fax: (608) 837-0274  
E-mail: MStuart@wppisys.org